Boston Trust Walden
Principled Investing.

March 13, 2020

Dear Clients and Other Partners,

This is an update on Boston Trust Walden and client portfolios, given recent, extraordinary events.

Our focus is sustaining excellent client service and investment management, keeping our colleagues safe from the infectious disease COVID-19, and helping slow the spread of the underlying novel coronavirus. To our knowledge, at this time, no Boston Trust Walden colleague or family member has been diagnosed with COVID-19. Recognizing that we are all in this together, we hope the same is true for you and your families.

Our Firm is Fully Operational

Boston Trust Walden is well prepared for this situation. We continue to serve you without interruption. Boston Trust Walden has a robust Business Continuity Plan, including a pandemic scenario component, that we have tested regularly for years. This proactive plan consists of secure and reliable technology, strong business processes, and supportive colleagues and partners. These are the steps we have taken recently to be safe while remaining responsive:

- We have suspended all non-essential business travel, both domestic and international.
- We have suspended participation in conferences and large gatherings.
- We have enhanced cleaning and disinfecting of our office. We have also encouraged everyone in our office to follow the now-well-known CDC protocols for promoting public health.
- We have suspended all non-essential visits to our office. We remain available to meet with you by teleconference.
- We monitor all persons on-site, and we encourage social distancing. We ask any colleagues who are ill to prioritize their health and refrain from returning to the office until their symptoms are resolved.
- We have been ramping toward most colleagues working remotely from home. Select staff cover certain on-site functions.
- We are prepared to operate 100% remotely. The entire firm is equipped with secure technology and the resources necessary to operate remotely.

We support public health efforts to reduce virus spread, so that the health system can build the capacity to test, quarantine, and treat many more patients. We are mindful of the social inequities that may affect the most vulnerable in our communities, and we remain hopeful that dedicated testing, treatment, and a vaccine are soon widely available.

Thoughts on the Economy and Financial Markets

As of March 13th, larger capitalization stocks, as measured by the S&P 500® stock market index, have declined approximately 16% year-to-date, while smaller cap stocks, as measured by the Russell 2000®, have declined approximately 27% year-to-date. This is a bear market correction. Current prices are approximately where they were in late 2018, and price volatility is elevated.

The decline in stock prices (and increase in bond prices) reflects investor concerns about the economy and expectations that corporate profits will worsen. Measures taken by governments, companies, individuals, and others to reduce the spread of COVID-19 have reduced economic demand and disrupted supply chains. The effects are dislocating for the hospitality industry, discretionary retailers, and others. Moreover, Saudi Arabia has announced an increase in oil production, aiming to force other oil producers to cooperate in limiting supply. As a result, oil prices have fallen sharply, disrupting the energy industry. For these and related reasons, we may already be in a recession, and other industries, companies, and countries are also at risk of dislocation.

The response in monetary policy has been swift. The U.S. Federal Reserve cut interest rates on March 3rd by 0.5% and is expected to cut rates further. The Fed also injected $1.5 trillion of liquidity into the markets on March 12th. We expect the central banks to fully support market liquidity, and we note that interest rates may remain low for the time being. Legislators and the executive branch may provide some fiscal stimulus and relief to those affected most by the events.

We do not know how the pandemic will develop. Our economic assumption is that, in contrast to recessions and market declines of recent decades, sheltering at home will result in pent-up demand that will flow back into the economy when the public health outlook improves in the weeks or months ahead. We understand that it may take a year or more for a vaccine to be available, thus the challenge remains sustaining public health, the economy, and investor patience until then.

Portfolio Performance and Positioning

Unforeseen events can have a broad-based effect on financial markets; most stocks have experienced double-digit declines this year. Our stock investment strategies have generally outperformed their relevant benchmarks during the decline. Our initial analysis of relative performance is that our focus on higher quality securities is modestly helpful, as such companies are well capitalized and can weather volatile environments more easily. However, there appears to be a headwind to our discipline of reasonable valuation. The latter may seem counterintuitive, but it can be associated with a decline in interest rates. We do not expect this phenomenon to continue.

With a focus on high-quality securities, client portfolios remain well-positioned for the current environment, as long as clients' overall portfolios have sufficient cash and fixed income to cover anticipated spending needs optimally for the next few years. We continue to view fixed income securities as good sources of liquidity, and they have helped cushion stock declines, but cash and bonds are unlikely to provide meaningful investment returns in the long term. By contrast, stocks remain good long-term investments in our view. Stock prices should reflect expectations for profits over the next decade or more. However, market participants often extrapolate the current situation too far into the future. This presents near-term challenges yet also offers long-term opportunities. We expect the financial markets will improve before the economic data reflect any improvement in social and economic conditions, as they did in 2003 and 2009. Because the timing of this recovery is unknowable, we remain overweight equities in client balanced portfolios.

We continue to monitor economic and market conditions, and we will continue to make appropriate portfolio adjustments. We remain available to discuss any of your questions or concerns. Please feel free to contact the portfolio manager and client service team with which you work most closely. Or, feel free to call our main number at (617) 726-7250.

While we remain responsible stewards of client portfolios and are always available to advise on financial matters, our main concern is that you are healthy and well.